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TAGS: ECON EIND ETRD ELAB PGOV BO
SUBJECT: Belarus' Flailing White Elephants

Classified by Charge Constance Phlipot for Reasons 1.4 (B,D)

¶1. (SBU) Summary: In recent months Ambassador and Emboffs have visited several of Belarus' larger businesses, including its fourth largest company, the Minsk Automobile Factory (MAZ), its fifth largest company, the Belarus Automobile Factory (BelAZ), and Belshina, one of the world's largest tire factories. All are state-owned, and all face serious problems. The most successful of the three, MAZ, still relies on government subsidies. BelAZ and Belshina are content with their current levels of production, and are not seeking to expand, despite the fact that western companies are practically begging for Belshina tires. Success for the GOB is measured in production, not sales. As with most Belarusian firms, much of what MAZ and BelAZ make immediately goes into storage, rather than to a buyer. Such economic practices, and large unreformed companies, will increasingly act as brakes on the Belarusian economy. End summary.

Big Trucks at MAZ

¶2. (U) Ambassador and Econoff visited the Minsk Automobile Factory (MAZ) on August 16. MAZ Director General Valentin Gurinovich gave a tour of the plant and explained that MAZ was founded in 1944, on the remains of a German tank repair yard, to assemble Lend-Lease trucks. MAZ is Belarus' largest factory, with 26,500 employees (down from 32,800 in the late 1990s), and in 2003 accounted for 18% of all Belarusian production. MAZ hopes for USD one billion in sales in 2005, up 9% from 2004. The company builds 300 truck, bus and trolley variants, and produces 82 vehicles a day. Employees earn an average USD 260 per month, just over the national average. Gurinovich complained it is hard to find qualified workers, and too many of his employees do not want to work.

¶3. (U) Gurinovich candidly said MAZ's main assembly line was built in 1965, with minor upgrades in the 1980s, and the company lacks innovation and rarely changes designs. Since its founding, MAZ has only modernized its vehicle output six times (rather than yearly, as is common in the west). Because the company uses old technology, Gurinovich admitted production is more labor intensive than in the west. [Note: Unlike at BelAZ (below), MAZ's assembly line

was in full operation during the tour. Econoff noted workers lacked even basic hearing, eye, or hard hat protection.]

¶4. (U) MAZ is 100% state-owned. Gurinovich explained he was appointed by the President. Each year the Ministry of Industry provides him with general guidance, as well as production and profit targets. Within those guidelines Gurinovich is free to operate as he would like. The company pays 20% of its income to the budget, and is free to keep the other 80% to cover operating costs. Being state-owned has protected MAZ from frequent inspections, with the State Control Committee not having inspected the plant in over ten years.

Dependent on/Competes With Russia

¶5. (U) Half of MAZ's production is sold to Russia, although this percentage is shrinking as the company seeks new markets. Truck exports to Russia, from both MAZ and BelAZ, fell by almost 9% over the year, largely as a result of complications from the January 2005 switch in how VAT is collected in bilateral trade. The next largest markets are the CIS, especially buses to Ukraine, and European Union, followed by Asia, South America and Africa. Only 5% of production is sold domestically. MAZ had a USD 50 million contract to sell garbage trucks to Baghdad, but lost this with the war. Even so, in June an Iraqi delegation came to investigate buying from MAZ again. MAZ hopes to boost exports by 30% in the next few years. In 2005 MAZ sold Euro 50 million to the EU. Gurinovich stated that sales to the EU force the company to keep their quality up, and MAZ hopes to soon produce to Euro-4 standards. MAZ has no plans to export to the U.S. MAZ tried importing U.S. engines, but found they were too expensive to sell and service on the Russian market. Gurinovich claimed Chinese firms have just started producing trucks, but he expects to face serious competition from China soon.

¶6. (U) MAZ depends on the open border with Russia. Its main rival is Russian company KAMAZ. Due to the Belarus-Russia customs union, Russia cannot discriminate against MAZ to protect KAMAZ. Gurinovich said this is vital, as MAZ cannot afford to modernize production at the same rate as KAMAZ has done, so competition is already difficult. Moreover, MAZ relies on 600 Russian parts suppliers, so needs the open border with Russia. Gurinovich hoped the two countries would adopt a single currency to ease trade. He did not expect any problems from Russian WTO accession, and said Belarusian accession would make sales to the EU easier as MAZ could avoid high EU tariffs.

Output Growing, but Still Needs Subsidies

¶7. (U) In December, MAZ announced that it produced 18,395 vehicles in the first eleven months of the year, up 1% from ¶2004. Out of this, MAZ produced 811 buses, 60% more than a year before, and 6,714 trailers, up 40%. In dollar terms, the company claimed production was up 12.9%. [Note: Belarusian companies routinely announce production figures, but rarely sales or profit figures.]

¶8. (U) On October 31, President Lukashenko signed a decree giving MAZ a BYR 58.745 billion [USD 27 million] subsidy from the state budget, and a commitment to give another BYR 10 billion [USD 4.65 million] in 2006. Ten billion rubles of this were to be used to upgrade production at Mogilevtransmash, a MAZ subsidiary that produces trailers. The rest of the money was meant to pay off MAZ debts.

Weak Independent Unions

¶9. (C) Gurinovich joked that MAZ employees belong to three unions, "two independent and one dependent." The vast majority, 25,000, belong to a union MAZ created that is affiliated with the pro-regime Federation of Trade Unions of Belarus. The independent unions have 150 and 20 members each.

Union Boss Claims MAZ Suffering

¶10. (C) On November 1, Poloffs spoke with Vladimir Volkov, leader of the independent REP union at MAZ. Volkov was recently transferred from his normal job at MAZ to a lesser paying job. Management claims it is because of his hearing loss in one ear, but he claims it is to isolate him from speaking to other REP members.

¶11. (C) Volkov said that the truck-building portion of MAZ, the company's biggest unit, is facing serious problems. It only works when it receives orders for trucks, and orders are becoming less frequent because of competition from KAMAZ. Volkov heard that MAZ needs USD 200 million to modernize to successfully compete with KAMAZ. According to Evgeniy Burak of the local ILO office, MAZ trucks have few buyers and the production line only works two or three days a week. Volkov stated MAZ's sections that build buses, trolleys and cable cars are much more successful, but constitute a much smaller portion of the company. These sections are all working three shifts to fulfill their orders. The bus section is particularly successful, being partnered with German bus company Neaplan. Volkov also explained that the Presidential Administration takes an active hand in managing the factory and that many workers, deemed especially loyal to the current government, earn salaries up to 50% higher than the MAZ norm.

Even Bigger Trucks at BelAZ

¶12. (U) The Belarusian Automobile Factory (BelAZ) in Zhodina specializes in extremely large trucks for industrial use, especially mining. These trucks range in size from 30 tons to a 400-ton behemoth BelAZ just unveiled.

¶13. (U) Ambassador and Econoff visited BelAZ on August 18 and spoke with General Director Pavel Mariev (who is also a Member of Parliament). Mariev explained BelAZ was founded in 1948 to produce mining trucks. The company is 100% state-owned, and has 9,300 employees, with the average salary being USD 300 per month (slightly above the Belarusian average of USD 250). This is down from over 10,000 workers during the Soviet era. BelAZ produces 1,200 trucks a year, and only in 2005 brought production back up to that of Soviet times. The company has the capacity to produce 3,000 trucks a year. Mariev said that BelAZ exports 70% of its trucks to Russia, and most of the rest to other CIS states, especially Ukraine, and smaller amounts to China. A Chinese firm assembles 40-ton BelAZ trucks in China. BelAZ sells very few trucks inside Belarus, and does not export to the U.S. Mariev claimed his main competitor is Caterpillar.

¶14. (U) Mariev stated that orders increased by 41% in 2005, with strong demand from Russia (fuelled by rising oil prices). BelAZ buys many parts, especially motors and steel, from Russia. However, BelAZ also buys motors from U.S. companies Cummins and the Detroit Motor Company. In 2005 the company signed an agreement with Cummins to buy USD 50 million worth of motors a year. General Electric has visited BelAZ several times over the past year seeking to sell electronic transmissions. However, Mariev said these GE transmissions are too expensive for their trucks.

Mariev explained that his company is content with their current level of business, and are not seeking to increase production or sales. Even so, BelAZ representatives attend a Chicago trade show every four years, and a trade show in Germany every other year.

Silent Assembly Line and Massive Overstocks

¶15. (C) Ambassador and Econoff toured BelAZ's assembly line, which was not in use at all during the 45 minute tour. Very few employees were present. When asked, Mariev claimed BelAZ works two shifts, and the line was currently between shifts. [Comment: in Econoff's experience, the incoming and outgoing shifts would normally overlap, causing there to be more workers present, so the assembly line is not halted.] GE's representatives (protect) told Econoff after visits to BelAZ in February and July that the majority of the company's production goes into storage as overstock as there are not enough buyers.

¶16. (U) Massive overstocks are endemic throughout the Belarusian economy. In December the Ministry of Statistics announced that 58.3% of Belarusian industrial production was overstock. As of December 1, Belarus has BYR 2.233 trillion [USD 1.04 billion] in finished goods sitting in storage awaiting buyers. This included 700 large MAZ and BelAZ trucks. Truck sales appear to be improving, as truck overstocks fell 12% in 2005, probably on the strength of increased Russian purchases. For example, Russia's Siberian Coal Energy Company announced in October it would increase purchases of BelAZ trucks by 25%, to 250 million Russian rubles in 2006. However, Russian buyers may be switching away from Belarusian trucks. On August 11, Secretary of the Russia-Belarus Union Pavel Borodin

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responded to a reporter's question by explaining that Russian companies were buying more American and less Belarusian trucks only because Russian buyers receive larger kickbacks when they buy more expensive American vehicles. This explanation is not believable, particularly after Belarus' Minister of Agriculture recently argued that although western tractors cost twice as much as Belarusian ones, they do six times the work. The same qualitative difference can be assumed to be true for trucks.

Flagging Business at Belshina

¶17. (SBU) Belshina, located in the southeastern city of Bobruisk, was the largest tire factory in the Soviet Union. The GOB owns 99.95% of the company. Belshina is one of the five largest tire manufacturers in the world. It is actually a complex of three factories that produce over 200 types of tires, for all sorts of vehicles except aircraft. Belshina makes all the tires for MAZ and BelAZ. The company has 12,500 employees, and controls all the usual extras expected of a Soviet company, including owning its own collective farm. Belshina exports 60% of its production to 44 countries, but 80% of exports go to Russia. The company claimed an annual revenue in 2004 of USD 479 million, although this seems inflated. GOB statistics show that from January to October 2005 Belshina announced it produced just BYR 426 billion [USD 198 million] worth of goods.

¶18. (SBU) Belshina's three factories have an official capacity of 4.3 million tires per year. However, GOB statistics show production is dropping, down 8.2% in 2005 to 1.932 million tires from January to August. This includes 1.394 million tires for automobiles, down 12.2%, 343,000 for trucks, down 2.9%, and 195,000 for agricultural machinery, up 20.3%. Despite these official statistics, in October the company announced its overall production was up

21% for the year.

Belshina: "You Don't Want to Buy our Tires"

¶19. (C) On August 10, Econoff met with Vladimir Antipov, General Director for Sales at Belshina. Antipov painted a grim picture of Belshina. He said that of the 200 types of tires they make, only five or six are in high demand. Because 90% of Belshina's material is imported, and because energy prices and labor costs are increasing, Antipov claimed Belshina tires are not competitive in the West. Antipov lamented that Belshina cannot compete with American or French tires on quality, and cannot compete with Chinese or Korean tires on cost. When Econoff asked about the possibility of buying Belshina tires for his Jeep, Antipov said, "You don't want to buy our tires." [Note: Belarusian industry relies overwhelmingly on natural gas, which is buys from Russia at well below market rates. The Ministry of Economy estimates that energy imports account for around ten percent of the cost of Belarusian goods. Any rise in gas prices would make Belarusian goods that much less competitive.]

¶20. (SBU) Antipov explained that Belshina is attempting to modernize. In 2005 the company invested Euro 25 million to upgrade its production of light truck and agricultural equipment tires. Belshina can now produce 980 such tires a month, compared to 300 a year before [note: this appears to be a different category than that mentioned in para 18]. In 2006 Belshina hopes to invest Euro 45 million to modernize the production of large tires. Antipov claimed a U.S. company, Energo Export from Vermont, may invest USD 5 million in this project. [Note: Energo Export is believed to be owned by a Belarusian-American businessman.]

¶21. (C) Antipov stated that Belshina exports 80% of its production. About 70% of exports are to CIS states, with the rest going around the world. Antipov said in 2005 Belshina would export USD 5 to 6 million worth of tires to the United States, with the two biggest buyers being Chicago's Pacetronic and GCR, a supplier to Bridgestone and Firestone. He said that Caterpillar was interested in buying Belshina tires, which he hoped would grow into USD 2 million in trade a month. Because of Caterpillar's interest, Antipov estimated Belshina would export USD 12 million in tires to the U.S. in 2006. His only complaint about U.S. companies is that they will not pay in advance, something most Belarusian firms insist on, particularly those that are state-owned. When asked if he or his staff travel internationally to trade shows, Antipov explained they are not allowed. Because Belshina receives money from the GOB, GOB regulations prevent its employees from traveling abroad on business.

Why Belshina Won't Sell to the West

¶22. (C) In October Caterpillar and another U.S. company, Miller Large Tires, contacted Post asking for help. Both wanted to buy large tires from Belshina, but were having problems. Caterpillar has a contract with Belshina, but feels Belshina is not supplying as many tires as had been agreed to. Miller has been unable to buy any tires. Caterpillar asked the Embassy to intercede, while Miller asked Post not to mention their company, for fear of ruining their negotiations.

¶23. (C) Post contacted Belneftikhim, the GOB entity that controls Belshina, on October 18 asking for a meeting. On November 10, DCM and Econoff met with Belneftikhim's vice-president Vitaly Zhydko. Zhydko treated Emboffs with hostility, and claimed Caterpillar was receiving all the tires Belshina had to sell under their contract. When asked about the possibility of supplying more tires for 2006, Zhydko grew more hostile, complaining that as of Jafuary Belshina would be producing at full capacity, but that there are too many orders. He explained Belshina

would give first preference to all orders from BelAZ and MAZ, second preference to Russian firms, such as KAMAZ, and third preference to CIS companies. If there are any tires left, they will consider selling to foreign firms. He said Caterpillar, Japan's Kamatsu, and "an English company" were all trying to buy tires. When asked if Belshina could add a second shift to increase production, or sell based on price, not geography, Zhydko replied, "We fulfilled this year's plan. We will fulfill next year's."

¶24. (C) On November 16, a Japanese diplomat told Econoff that Kamatsu was having trouble buying from Belshina. Kamatsu sent a representative to Belarus, but Belshina told him Belarusian customs did not have the manpower to process tire sales for Japan. Kamatsu offered to fund a position at customs, but Belshina replied they did not have the authority to decide to sell to Japan. When Kamatsu met with Belneftikhim, they also replied they do not have the authority to decide if Belshina can sell to a Japanese company.

¶25. (C) On December 31, Poloff spoke with a Belshina sales agent returning from Poland. This sales agent contradicted what Antipov claimed, and said he regularly travels abroad on behalf on his company, including recently to Chicago. The sales agent thought Belshina was entering into a very fruitful relationship with Caterpillar. He complained that in the late 1990s Bridgestone entered into a partnership to modernize Belshina. However, the GOB began to increase its demands on Bridgestone, which quickly pulled out of the deal.

Comment

¶26. (C) These are three of Belarus' largest companies, and between them have nearly 50,000 employees. All are fully state-owned, and all face problems, many of which stem from being state-owned. Management at BelAZ and Belshina in particular reflected the worst aspects of a command economy, making little to no efforts to reach out to new markets or seek to increase sales. Instead, success is measured in how well these companies reach their production targets. Selling what they make, as with most of Belarus' large companies, is a lesser priority. Even MAZ, the more successful of the three, still relies on state subsidies. MAZ's success story is its production of buses, made successful by partnership with a German company. Belshina tried to bring in western investment and technology, but government interference chased away the foreigners. Belarusian production thus remains largely unmodernized, using the techniques and technology of the 1960s. Such companies are likely to remain a brake on Belarus' economy, particularly as the GOB shows no inclination to reform.

PHLIPOT